

School Tuition Organization Tax Credit

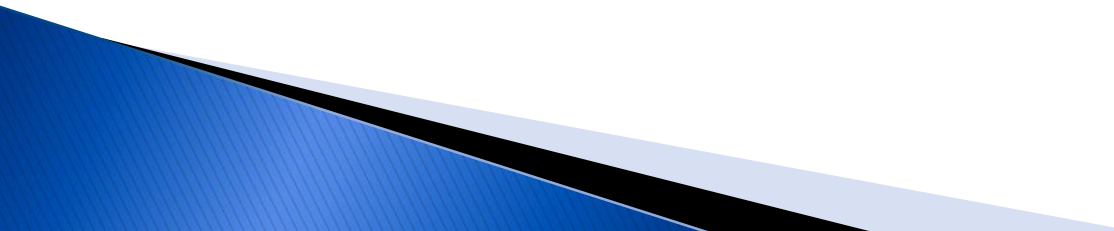
Tax Expenditure Committee – November 27, 2017

Anthony Girardi
Tax Research and Program Analysis Section
Iowa Department of Revenue

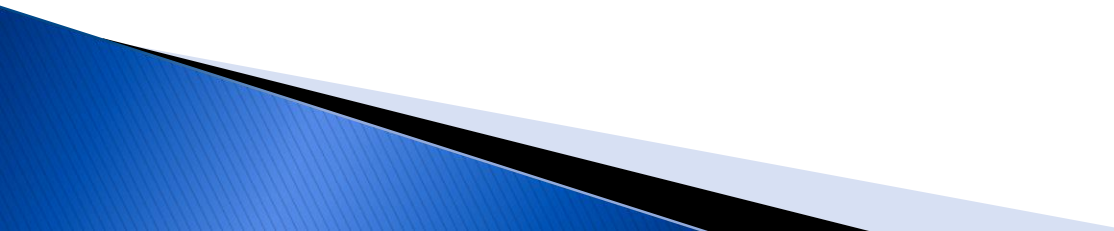
Outline of Remarks

- ▶ Background on the School Tuition Organization (STO) Tax Credit
- ▶ Other education scholarship tax credits in the United States
- ▶ STO tax credit awards and claims
- ▶ Evaluating the fiscal impact of the STO tax credit

STO Tax Credit Description

- ▶ Enacted in tax year 2006
 - ▶ Awarded to a taxpayer who makes a voluntary contribution to one of 12 qualifying School Tuition Organizations (STOs)
 - ▶ Tax credit equals 65% of the contribution
 - ▶ Contribution cannot be taken as an itemized deduction for charitable contributions for Iowa tax purposes
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Tuition Grants Overview

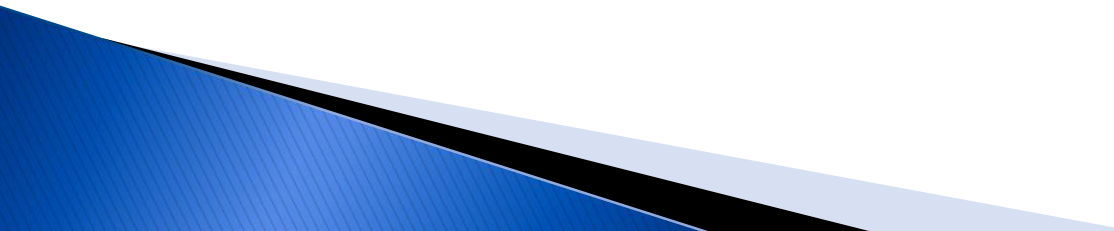
- ▶ Using contributions, STOs provide tuition grants to students to attend private K–12 schools in Iowa
 - ▶ The contribution *cannot* directly benefit any student designated by the taxpayer
 - ▶ An STO must represent more than one school
 - ▶ To be eligible for a tuition grant, a student's household income must be below applicable poverty guidelines multiplied by 3
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STO Tax Credit Program Award Cap

- ▶ Set at \$5 million for its first full year, the program award cap has been raised three times
- ▶ Since 2014, program awards are capped at \$12 million

TaxYear	Program Award
	Cap (\$ Millions)
2006	\$2.50
2007	\$5.00
2008	\$7.50
2009	\$7.50
2010	\$7.50
2011	\$7.50
2012	\$8.75
2013	\$8.75
2014	\$12.00
2015	\$12.00
2016	\$12.00
2017	\$12.00

Tax Credit Details

- ▶ Overall tax credit cap is allocated among STOs based on enrollment at represented schools
 - ▶ Claims against individual income tax and, since 2009, corporation income tax
 - ▶ Each STO can award up to 25 percent of allocated credits to corporate donors
 - ▶ Tax credits are not transferable
 - ▶ Nonrefundable, 5-year carryforward
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Nonresident/Part-Year Resident Carryforward

- ▶ Iowa Code (422.115 (4)) requires apportionment of STO tax credit by nonresident and part-year resident individual income taxpayers
- ▶ Any portion of the tax credit apportioned to out-of-state income cannot be claimed and cannot be carried forward
- ▶ Only awarded tax credit with this treatment
- ▶ In 2015, there were 24 awards to nonresident individuals for \$111,000; tax credits subject to this treatment totaled \$44,000

Iowa Code Requires that Each STO...

- ▶ Be a 501(c)(3) charitable organization
- ▶ Allot 90% of annual revenue to Tuition Grants
- ▶ Register with the Iowa Department of Revenue (IDR) and provide the following information annually to IDR:
 - Names and addresses of the STO's board of directors
 - Total number and dollar value of contributions received and tax credits approved for each year
 - List of each individual donor's tax credit amount and certificate number
 - Total number of students receiving Tuition Grants and total dollar amount of grants
 - Names and addresses of its represented schools, enrollment, and total dollar amounts of Tuition Grants at each school

School Tuition Organizations

School Tuition Organization Name	Number of Schools	2017 Enrollment
Our Faith, Our Children, Our Future STO	39	9,647
Monsignor Lafferty Tuition Foundation	16	5,247
Catholic Tuition Organization, Diocese of Des Moines	16	5,680
STO of Southeast Iowa	9	2,291
Northwest Iowa Christian STO	16	2,837
Mississippi Valley STO	6	1,957
Heart of Iowa STO	13	3,141
Legacy of Grace STO	8	717
North Central Iowa STO	2	102
Iowa Lutheran STO	15	1,474
Iowa Independent STO	4	543
Independent School Association of Eastern Iowa STO	2	104
Total	146	33,740

Source: School Tuition Organizations

Education Scholarship Tax Credit Programs in Other States

- ▶ 17 states have a scholarship tax credit
- ▶ Statewide caps
 - ▶ Low: \$1.5 million (Rhode Island)
 - ▶ High: \$699 million (Florida)
 - ▶ Louisiana has no statewide cap
 - ▶ Arizona has one program that is capped at the state level and another program that has no statewide cap
- ▶ Eight states place dollar amount cap on eligible donation by individual income taxpayer
 - ▶ Montana: \$150
 - ▶ Pennsylvania: \$750,000

Education Scholarship Tax Credit Programs in Other States

- ▶ Tax credits range from 50% – 100% of contribution amount
 - 100% of contribution in seven states
 - AL, AZ, FL, GA, MT, NV, SC
 - 50% of contribution in two states
 - IN, OK
- ▶ Refundable in one state
 - LA

Contributions and Awards

Year	Total Contributions (\$ Millions)	Total Awards (\$ Millions)	Number of Awards Issued	Average Award Issued	Median Award Issued
2006	\$3.85	\$2.50	1,125	\$2,222	\$650
2007	\$7.44	\$4.87	1,850	\$2,642	\$650
2008	\$9.54	\$6.20	2,830	\$2,191	\$650
2009	\$11.39	\$7.41	3,160	\$2,342	\$650
2010	\$11.54	\$7.50	3,029	\$2,476	\$650
2011	\$11.54	\$7.50	2,835	\$2,645	\$650
2012	\$13.46	\$8.75	3,103	\$2,820	\$650
2013	\$13.46	\$8.75	2,996	\$2,921	\$650
2014	\$18.33	\$11.91	3,708	\$3,236	\$975
2015	\$18.46	\$12.00	3,396	\$3,534	\$975
2016	\$18.46	\$12.00	3,484	\$3,444	\$976
Total	\$137.47	\$89.39	31,516	\$2,839	\$650

Source: Iowa Department of Revenue

Since 2006, \$89.4 million in tax credit awards
based on donations of \$137.5 million

Tax Credit Claims

Tax Year	Amount of Tax Credits Claimed (\$ Millions)	Amount of Tax Credits Expired (\$ Millions)	Amount of Tax Credits Carried Forward to Next Tax Year (\$ Millions)
2006	\$2.19	\$0.00	\$0.25
2007	\$4.47	\$0.00	\$0.60
2008	\$5.60	\$0.00	\$1.07
2009	\$6.86	\$0.00	\$1.46
2010	\$7.21	\$0.00	\$1.59
2011	\$6.78	\$0.01	\$2.25
2012	\$8.56	\$0.04	\$2.07
2013	\$8.20	\$0.06	\$2.16
2014*	\$11.22	\$0.07	\$2.58
2015*	\$10.23	\$0.05	\$2.07
2016*	\$6.55	\$0.02	\$1.61
Total	\$77.86	\$0.25	

Source: Iowa Department of Revenue

* Review of tax credit claims for tax years 2014 through 2016 is not final.

- Since 2006, \$77.9 million in claims
- \$250,000 in awards have expired

Number of STOs, Enrollment, and Tuition Grant Amounts

School Year	Number of STOs	Number of Schools Covered by STOs	Total Enrollment at STO Schools	Number of Tuition Grants Issued	Share of Total Enrollment Receiving Tuition Grants	Amount of Tuition Grants Issued (\$ Millions)	Average Tuition Grant
2006-07	9	127	33,230	487	1.5%	\$0.30	\$610
2007-08	10	137	34,697	7,527	21.7%	\$3.98	\$528
2008-09	11	136	35,082	8,623	24.6%	\$7.37	\$855
2009-10	11	136	34,537	9,411	27.2%	\$9.11	\$968
2010-11	12	140	33,987	10,279	30.2%	\$10.94	\$1,064
2011-12	12	140	33,563	10,600	31.6%	\$10.93	\$1,031
2012-13	12	138	33,506	10,446	31.2%	\$11.33	\$1,084
2013-14	12	138	33,469	10,388	31.0%	\$12.66	\$1,219
2014-15	12	139	33,363	10,494	31.5%	\$13.51	\$1,287
2015-16	12	140	33,342	10,848	32.5%	\$17.61	\$1,624
2016-17	11	138	33,465	10,771	32.2%	\$17.05	\$1,583

Source: Iowa Department of Revenue

Who benefits from STO tuition grants?

- Describe tuition grant recipients in terms of financial characteristics including family income and level of financial aid need
- Analysis is based on student-level data provided by STOs on a voluntary basis
- Iowa Code does not require STOs to retain or report this information to IDR
- Data concerns school years 2012–13 through 2016–17

Overview of Analysis Data File

Tax Credit Program Administrative Data				STO-Reported Student-Level Data in Analysis Data File			
School Year	Total Number of STOs	Total Number of STO Schools	Total Number of Tuition Grants	STOs Reporting Student-Level Data	Number of Schools	Number of Tuition Grants	Share of Total Tuition Grants
2012-13	12	138	10,446	4	37	2,365	22.6%
2013-14	12	138	10,388	5	69	5,069	48.8%
2014-15	12	139	10,494	6	82	5,929	56.5%
2015-16	12	140	10,848	7	90	7,740	71.3%
2016-17	11	138	10,771	5	49	3,094	28.7%
Total			52,947			24,197	45.7%

Source: Iowa Department of Revenue analysis of School Tuition Organization data
The table represents data reported by School Tuition Organizations and analyzed by Iowa Department of Revenue staff as of November 1, 2017

Poverty Guidelines and Tuition Grant Eligibility for 2018–19 School Year

Number of Persons in Family/ Household	2017 Poverty Guidelines	2017 Poverty Guidelines Multiplied by 3
1	\$12,060	\$36,180
2	\$16,240	\$48,720
3	\$20,420	\$61,260
4	\$24,600	\$73,800
5	\$28,780	\$86,340
6	\$32,960	\$98,880
7	\$37,140	\$111,420
8	\$41,320	\$123,960

Source: U.S. Department of Health and Human Services

Iowa Code (§422.11S): “Eligible student” means a student who is a member of a household whose total annual income during the calendar year before the student receives a tuition grant [...] does not exceed an amount equal to three times the most recently published federal poverty guidelines[...].

Full Tuition for Tuition Grant Recipients

	School Year				
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Average	\$3,233	\$2,871	\$3,226	\$3,521	\$4,148
Median	\$2,521	\$2,484	\$2,775	\$3,050	\$3,400
Minimum	\$591	\$846	\$295	\$205	\$226
Maximum	\$20,050	\$15,900	\$16,900	\$18,700	\$24,400

Source: Iowa Department of Revenue analysis of School Tuition Organization data

Financial Aid Need

- ▶ Whereas poverty guidelines are used to establish *eligibility* for a Tuition Grant, financial aid need is used to determine Tuition Grant *amount*
- ▶ Procedures for calculating financial aid need are determined by each STO
- ▶ Financial aid need represents the difference between a family's calculated ability to pay and the cost of tuition
- ▶ STOs can provide Tuition Grants to all eligible students even if Need = \$0

Family Income, Financial Aid Need, and Tuition Grant Amounts

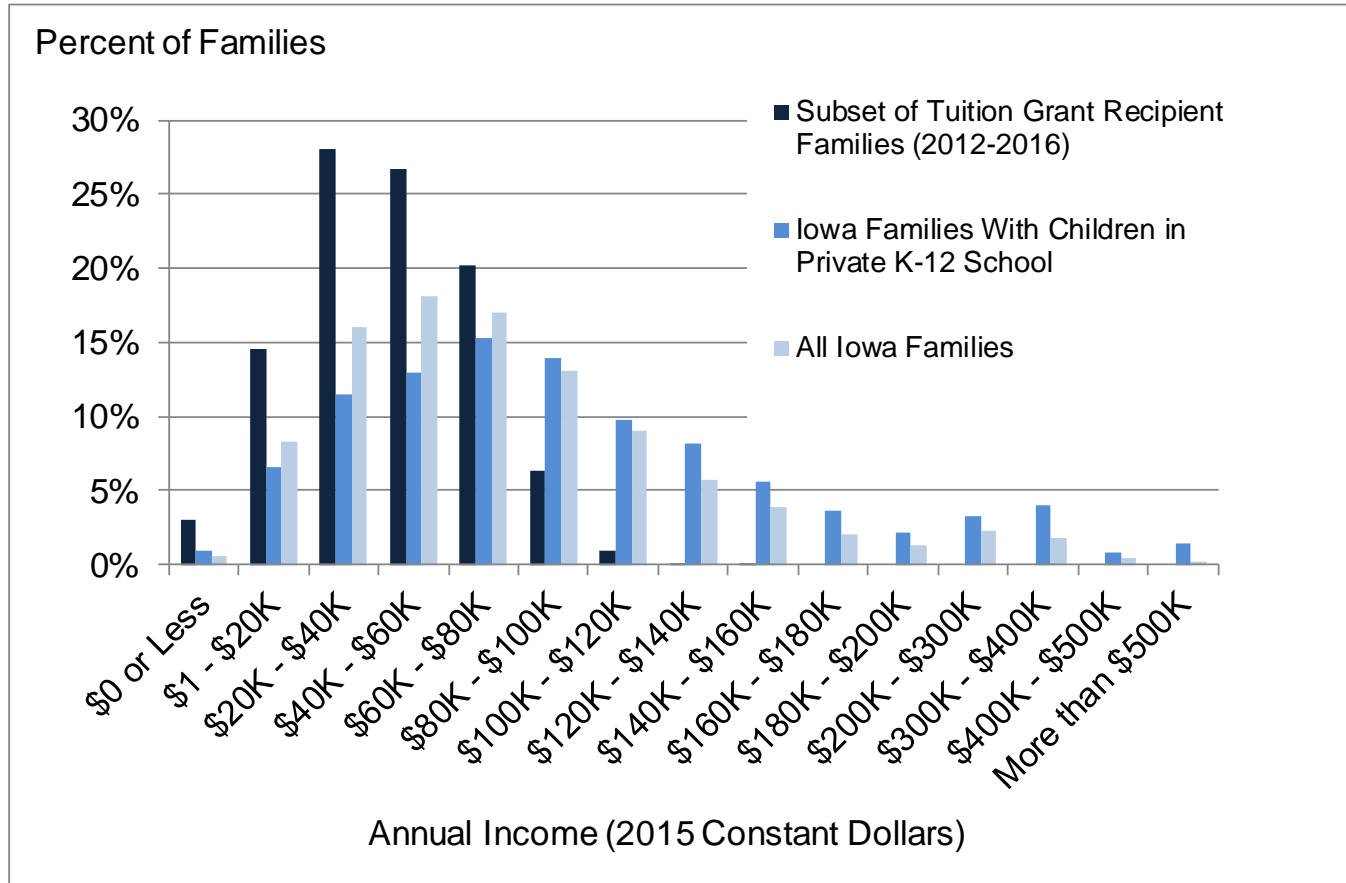
2015–16 School Year Tuition Grant Recipients

	Family Income	Financial Aid Need	Tuition Grant	Percent of Need Met by Tuition Grant	Percent of Tuition Met by Tuition Grant
Mean	\$44,322	\$2,170	\$1,811	75%	61%
Median	\$43,019	\$2,155	\$1,663	74%	65%
Minimum	-\$259,970	\$0	\$100	16%	2%
Maximum	\$155,093	\$10,635	\$5,750	100%	100%

Source: Iowa Department of Revenue analysis of School Tuition Organization data

Family Income

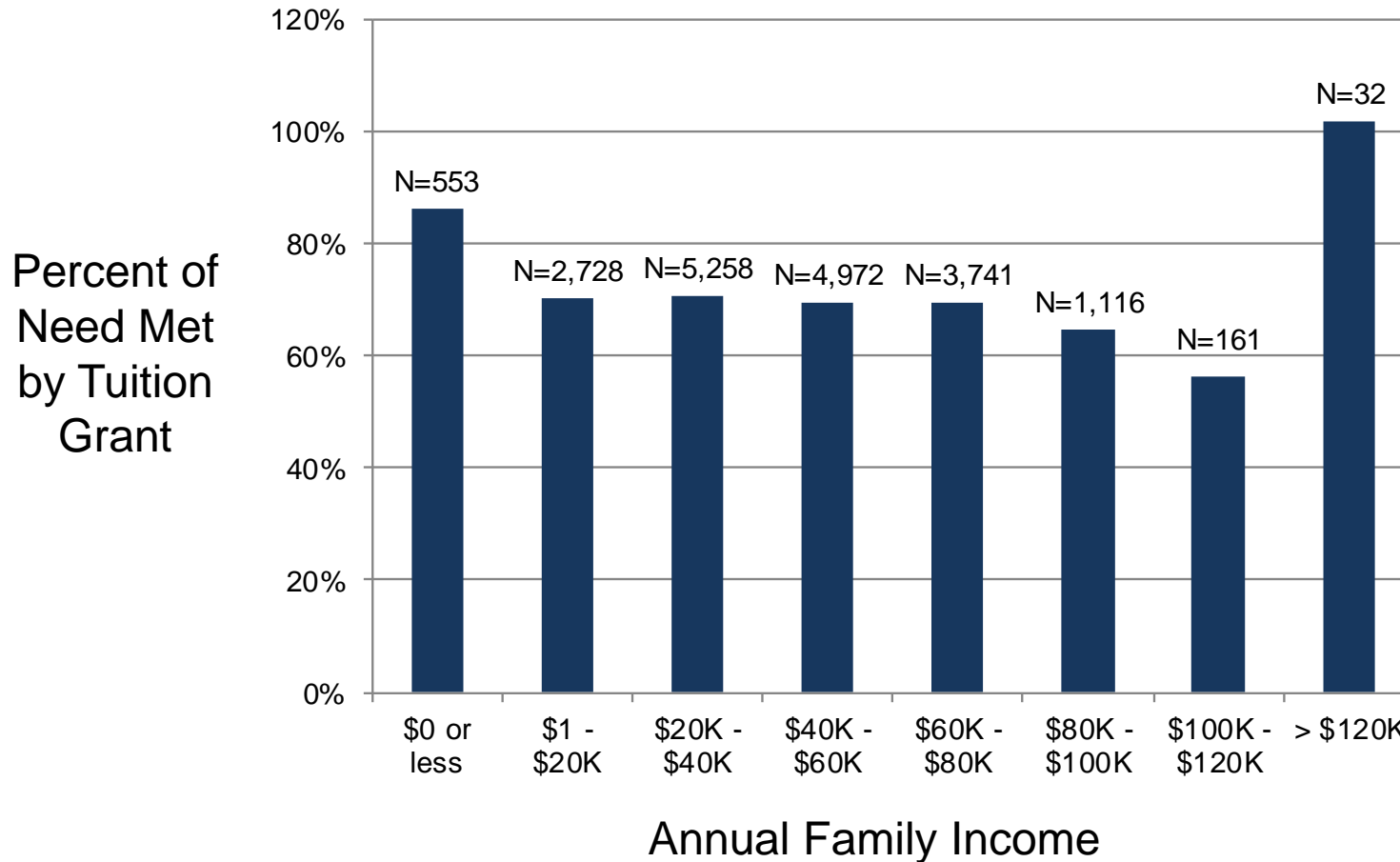
Tuition Grant Families, Private School Families, and Iowa Families



Sources: Iowa Department of Revenue analysis of School Tuition Organization data and U.S. Census American Community Survey Public Use Microdata 5-Year Sample 2015

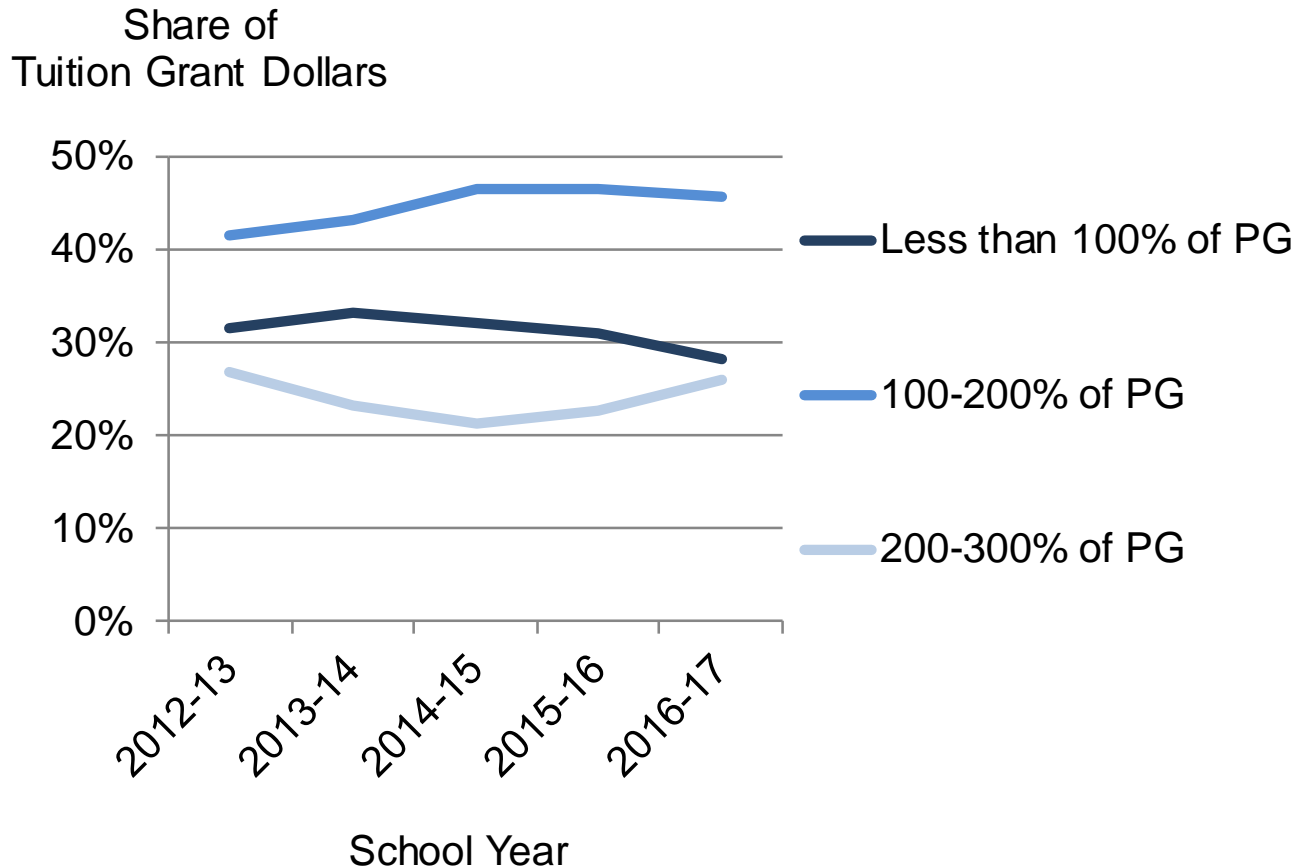
Percent of Need Met, by Family Income

School Years 2012-13 Through 2016-17 Combined



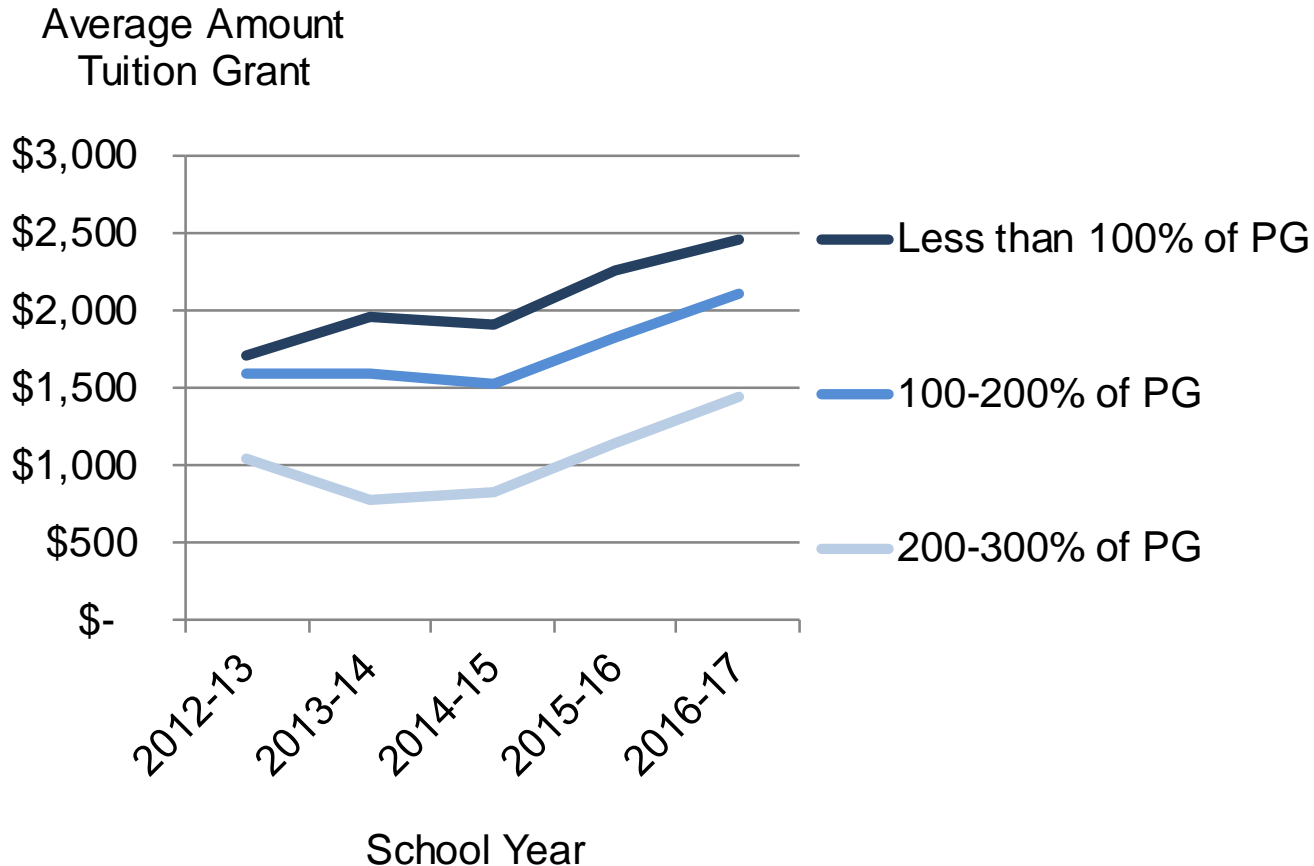
Source: Iowa Department of Revenue analysis of School Tuition Organization data

Share of Tuition Grant Dollars by Percentage of Poverty Guideline (PG)



Source: Iowa Department of Revenue analysis of School Tuition Organization Data

Average Tuition Grant by Percentage of Poverty Guideline (PG)



Source: Iowa Department of Revenue analysis of School Tuition Organization data

What is the Net Fiscal Impact of the STO Tax Credit?

Addresses the question, Do Tuition Grants funded by tax credits save State money through lower public education spending? Calculation procedures follow two sources:

- Buschman, R., & Sjoquist, D. L. (2014). *Georgia's Tax Credit Scholarship Program*
- Lueken, M. F. (2016). *The Tax-Credit Scholarship Audit: Do Publicly Funded Private School Choice Programs Save Money?*

Estimated Net Fiscal Impact

$$\text{Fiscal Value} - \text{Fiscal Cost} = \\ (G \times E \times p) - C$$

Where

G = total number of Tuition Grant recipients

E = per pupil cost of public Education

p = estimated Percentage of Tuition Grant recipients who otherwise would attend public school (i.e., *substitution rate*)

C = Cost of the tax credit (i.e., total awards)

Per Pupil Cost of Public Education in Iowa

- ▶ Iowa School Finance Formula
 - Establishes public school funding levels
 - Based on enrollment
- ▶ Regular Program Cost + State Categorical Supplements
- ▶ Available from Iowa Department of Management
- ▶ \$7,613 for 2016–17 School Year

Substitution Rate

- ▶ Estimated percentage of students who receive Tuition Grants for private school who, without the financial support, would otherwise attend a public school
- ▶ Estimate is based on student-level information provided by STOs

Substitution Rate

Percentile	Tuition as Percentage of Family Income	Need as Percentage of Full Tuition	Percent of Full Tuition Met by Tuition Grant
99th	102.0%	100.0%	100.0%
90th	21.0%	100.0%	95.0%
80th	13.4%	100.0%	79.7%
70th	9.9%	100.0%	71.9%
60th	7.9%	100.0%	60.5%
50th	6.4%	95.7%	57.9%
40th	5.2%	79.0%	48.0%
30th	4.3%	57.5%	33.9%
20th	3.6%	25.4%	21.5%
10th	2.7%	0.0%	15.0%
Min	0.6%	0.0%	2.0%

Source: Iowa Department of Revenue analysis of School Tuition Organization data

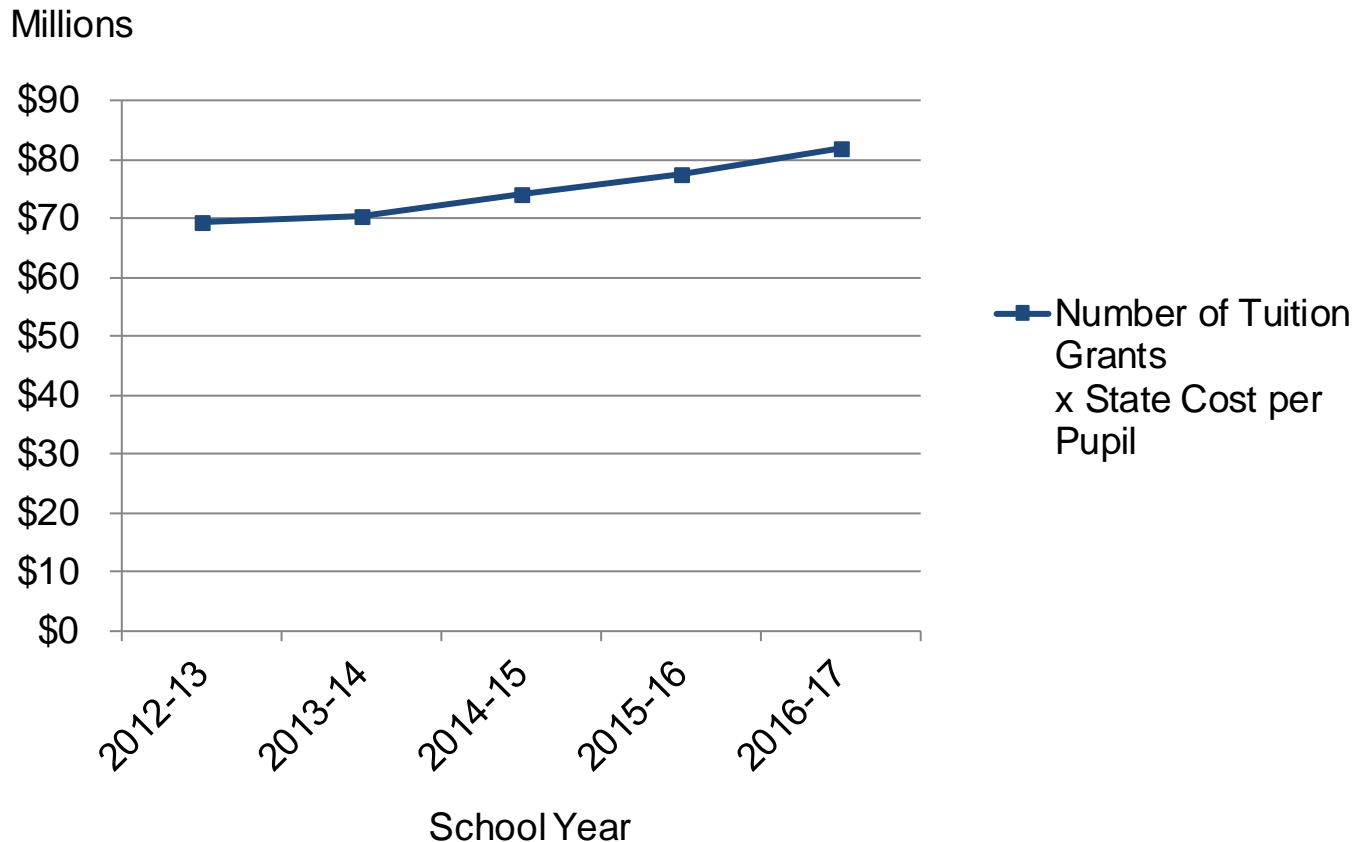
Cost of STO Tax Credit and Estimated Cost of Public Schooling for Tuition Grant Recipients

School Year	Number of Tuition Grants	Number of Tuition Grants x State Cost per Pupil for Public Schooling		Estimated Substitution Rate	Cost of STO Tax Credit (\$ Millions)
		State Cost per Pupil of Public School (\$ Millions)			
2012-13	10,446	\$6,641	\$69.37	30.0%	\$7.50
2013-14	10,388	\$6,773	\$70.36	30.0%	\$8.75
2014-15	10,494	\$7,044	\$73.92	30.0%	\$8.75
2015-16	10,848	\$7,133	\$77.38	30.0%	\$12.00
2016-17	10,771	\$7,613	\$82.00	30.0%	\$12.00

Source: Iowa Department of Revenue analysis

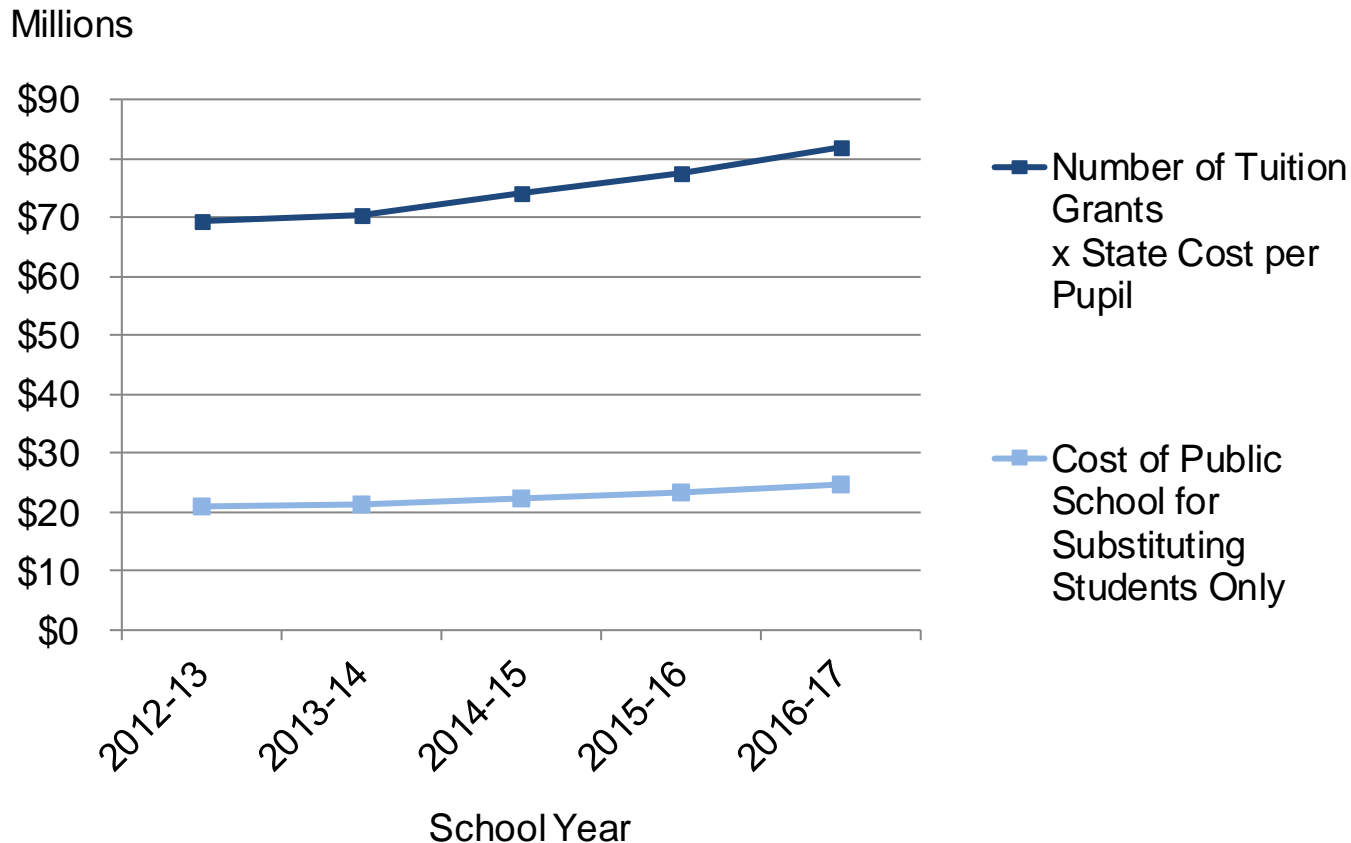
It is estimated that 30% of Tuition Grant recipients would, without that support, attend public school. For this percentage of recipients, the Tuition Grant represents at least 70% of the full cost of tuition. In addition, financial aid need represents the total cost of tuition for more than 30% of Tuition Grant recipients.

Calculating the Net Fiscal Impact of the STO Tax Credit



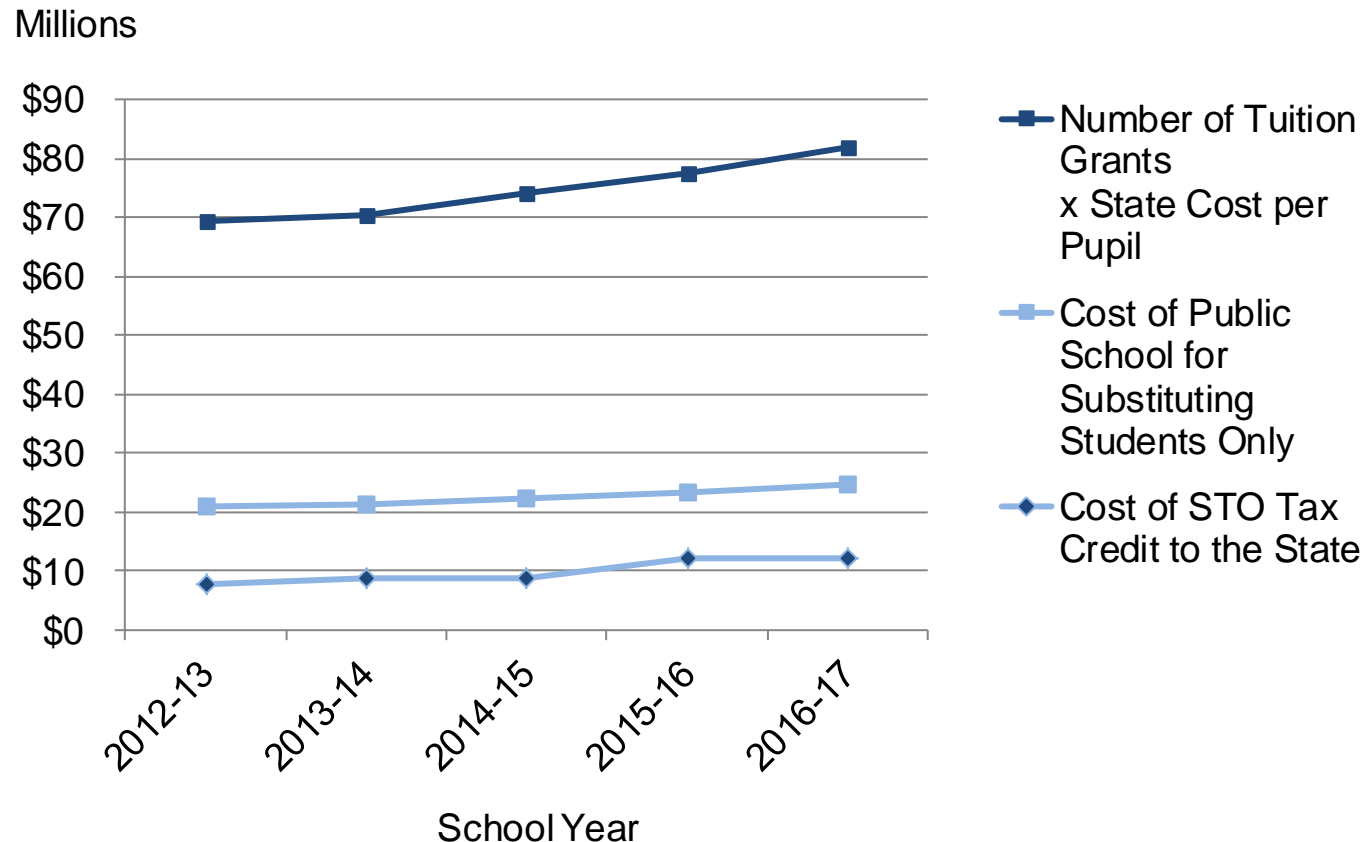
Source: Iowa Department of Revenue analysis

Calculating the Net Fiscal Impact of the STO Tax Credit



Source: Iowa Department of Revenue analysis

Calculating the Net Fiscal Impact of the STO Tax Credit



Source: Iowa Department of Revenue analysis

Calculating the Net Fiscal Impact of the STO Tax Credit

School Year	Number of Tuition Grants x State Cost per Pupil (\$ Millions)	Estimated Substitution Rate	Cost of STO Tax Credit (\$ Millions)	Cost of Public School for Substituting Students Only (\$ Millions)	Estimated Net Fiscal Impact (\$ Millions)	Breakeven Substitution Rate
2012-13	\$69.37	30.0%	\$7.50	\$20.81	\$13.31	10.8%
2013-14	\$70.36	30.0%	\$8.75	\$21.11	\$12.36	12.4%
2014-15	\$73.92	30.0%	\$8.75	\$22.18	\$13.43	11.8%
2015-16	\$77.38	30.0%	\$12.00	\$23.21	\$11.22	15.5%
2016-17	\$82.00	30.0%	\$12.00	\$24.60	\$12.60	14.6%

Source: Iowa Department of Revenue analysis

- At a 30% substitution rate, the State's public school financing costs are estimated to have been reduced by more than \$12 million over the amount of STO tax credits awarded
- Under the \$12 million cap, at least 15% of Tuition Grant recipients must move from public to private schools as a result of the program in order for the fiscal value to equal the fiscal cost